

# OPEN MEETING



0000094638

ORIGINAL

## MEMORANDUM

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Arizona Corporation Commission

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2009 MAR 17 P 3:37

MAR 17 2009

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: March 17, 2009

DOCKETED BY	
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RE: TUCSON ELECTRIC POWER COMPANY - APPLICATION TO RESET THE PPFAC RATE FOR APRIL 2009 THROUGH MARCH 2010 (DOCKET NOS. E-01933A-07-0402 AND E-01933A-05-0650)

On December 24, 2008, TEP filed its Preliminary Calculation of the Purchased Power and Fuel Adjustment Clause ("PPFAC") Rate for the first PPFAC year that runs from April 1, 2009, through March 31, 2010, pursuant to Decision No. 70628. On February 2, 2009, TEP filed its updated calculations. On March 9, 2009, TEP filed a revised update to the calculations, after discussion with Staff's consultants.

Commission Decision No. 70628 (December 1, 2008) approved the creation of the PPFAC through which Tucson Electric Power Company ("TEP") is to recover its purchased power and fuel expenses. The PPFAC consists of a Forward Component and a True-up Component. The Forward Component consists of the forecasted fuel and purchased power costs for the year commencing on April 1 and ending on March 31 of the ensuing year, less the average Base Cost of Fuel and Purchased Power reflected in base rates (\$0.028896 per kWh). The True-up Component reconciles any over-recovered or under-recovered amounts from the preceding PPFAC year to be credited to, or recovered from, customers in the next PPFAC year. The PPFAC rate was initially set at zero.

Decision No. 70628 provides for TEP to file the PPFAC rate for the upcoming year by October 31 of each year and to file an update to the filing by February 1 of the next year. The new rate would go into effect on April 1, but only after Commission approval. Low-income customers are not subject to the PPFAC.

In Decision No. 69568, the Commission allowed the Fixed Competition Transition Charge ("Fixed CTC") to continue pending the outcome of the rate case instead of terminating when anticipated by Decision No. 62103. Decision No. 70628 ordered the Fixed CTC True-up Revenues ("True-up Revenues") to be credited against the PPFAC in a manner that keeps the PPFAC rate at zero until the True-up Revenues are fully credited.

Although Decision No. 70628 included a reference to a TEP estimate of \$66 million for True-up Revenues expected to be collected from customers by December 31, 2008, the actual amount of True-up Revenues is \$58,779,329.02, with interest to be applied each month on the

THE COMMISSION

March 17, 2007

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balance. Since new rates went into effect on December 1, 2008, True-up Revenues were not collected from customers during the month of December, resulting in the lower number.

TEP's March 9, 2009, filing requests a Forward Component rate of \$0.001758 per kWh to be offset by Fixed CTC True-up Revenue, resulting in a zero PPFAC rate on customer bills for the April 1, 2009 through March 31, 2010, PPFAC year. Although it may seem unusual for the Commission to take action on a request to maintain the PPFAC rate at zero, it is important for the Commission to determine that the amount of the Forward Component rate is appropriate. The amount of Fixed CTC True-up Revenue that is used to offset the Forward Component rate will affect the balance of the Fixed CTC True-up Revenue available to be used in future PPFAC rate resets.

Staff, through its consultants, has reviewed TEP's calculations of the Forward Component. TEP's March 9, 2009, filing has incorporated all identified corrections. Staff has also reviewed TEP's assumptions used in developing the forecast of fuel and purchased power expenses, and Staff finds the assumptions to be reasonable.

Staff recommends that Tucson Electric Power Company's Forward Component rate be set at \$0.001758 per kWh and be offset by Fixed CTC True-up Revenue, resulting in a zero PPFAC rate on customer bills for the April 1, 2009 through March 31, 2010, PPFAC year.

for

  
Ernest G. Johnson  
Director  
Utilities Division

EGJ:BEK:lhmvJFW

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES  
Chairman

3 GARY PIERCE  
Commissioner

4 PAUL NEWMAN  
Commissioner

5 SANDRA D. KENNEDY  
Commissioner

6 BOB STUMP  
Commissioner

7  
8 IN THE MATTER OF THE APPLICATION )  
OF TUCSON ELECTRIC POWER )  
9 COMPANY TO RESET THE PPFAC RATE )  
10 FOR APRIL 2009 THROUGH MARCH 2010 )  
11 )  
12 )

DOCKET NOS. E-01933A-07-0402  
E-01933A-05-0650

DECISION NO. \_\_\_\_\_

ORDER

13 Open Meeting  
14 March 31 and April 1, 2009  
Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Tucson Electric Power Company ("TEP") is certificated to provide electric service  
18 as a public service corporation in the State of Arizona.

19 2. On December 24, 2008, TEP filed its Preliminary Calculation of the PPFAC Rate  
20 for the first Purchased Power and Fuel Adjustment Clause ("PPFAC") year that runs from April 1,  
21 2009, through March 31, 2010, pursuant to Decision No. 70628. On February 2, 2009, TEP filed  
22 its updated calculations. On March 9, 2009, TEP filed a revised update to the calculations, after  
23 discussion with Staff's consultants.

24 3. Commission Decision No. 70628 (December 1, 2008) approved the creation of the  
25 PPFAC through which TEP is to recover its purchased power and fuel expenses. The PPFAC  
26 consists of a Forward Component and a True-up Component. The Forward Component consists of  
27 the forecasted fuel and purchased power costs for the year commencing on April 1 and ending on  
28 March 31 of the ensuing year, less the average Base Cost of Fuel and Purchased Power reflected in

1 base rates (\$0.028896 per kWh). The True-up Component reconciles any over-recovered or  
2 under-recovered amounts from the preceding PPFAC year to be credited to, or recovered from,  
3 customers in the next PPFAC year. The PPFAC rate was initially set at zero.

4 4. Decision No. 70628 provides for TEP to file the PPFAC rate for the upcoming year  
5 by October 31 of each year and to file an update to the filing by February 1 of the next year. The  
6 new rate would go into effect on April 1, but only after Commission approval. Low-income  
7 customers are not subject to the PPFAC.

8 5. In Decision No. 69568, the Commission allowed the Fixed Competition Transition  
9 Charge ("Fixed CTC") to continue pending the outcome of the rate case instead of terminating  
10 when anticipated by Decision No. 62103. Decision No. 70628 ordered the Fixed CTC True-up  
11 Revenues ("True-up Revenues") to be credited against the PPFAC in a manner that keeps the  
12 PPFAC rate at zero until the True-up Revenues are fully credited.

13 6. Although Decision No. 70628 included a reference to a TEP estimate of \$66 million  
14 for True-up Revenues expected to be collected from customers by December 31, 2008, the actual  
15 amount of True-up Revenues is \$58,779,329.02, with interest to be applied each month on the  
16 balance. Since new rates went into effect on December 1, 2008, True-up Revenues were not  
17 collected from customers during the month of December, resulting in the lower number.

18 7. TEP's March 9, 2009, filing requests a Forward Component rate of \$0.001758 per  
19 kWh to be offset by Fixed CTC True-up Revenue, resulting in a zero PPFAC rate on customer  
20 bills for the April 1, 2009 through March 31, 2010, PPFAC year. Although it may seem unusual  
21 for the Commission to take action on a request to maintain the PPFAC rate at zero, it is important  
22 for the Commission to determine that the amount of the Forward Component rate is appropriate.  
23 The amount of Fixed CTC True-up Revenue that is used to offset the Forward Component rate will  
24 affect the balance of the Fixed CTC True-up Revenue available to be used in future PPFAC rate  
25 resets.

26 8. Staff, through its consultants, has reviewed TEP's calculations of the Forward  
27 Component. TEP's March 9, 2009, filing has incorporated all identified corrections. Staff has also

28 ...

1 reviewed TEP's assumptions used in developing the forecast of fuel and purchased power  
2 expenses, and Staff finds the assumptions to be reasonable.

3 9. Staff has recommended that Tucson Electric Power Company's Forward  
4 Component rate be set at \$0.001758 per kWh and be offset by Fixed CTC True-up Revenue,  
5 resulting in a zero PPFAC rate on customer bills for the April 1, 2009 through March 31, 2010,  
6 PPFAC year.

7 CONCLUSIONS OF LAW

8 1. TEP is an Arizona public service corporation within the meaning of Article XV,  
9 Section 2, of the Arizona Constitution.

10 2. The Commission has jurisdiction over TEP and over the subject matter of the  
11 application.

12 3. The Commission, having reviewed TEP's application and Staff's Memorandum  
13 dated March 17, 2009, concludes that it is in the public interest that TEP's Forward Component  
14 rate be set at \$0.001758 per kWh and be offset by Fixed CTC True-up Revenue, resulting in a zero  
15 PPFAC rate on customer bills for the April 1, 2009 through March 31, 2010, PPFAC year.

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ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company's Forward Component rate be set at \$0.001758 per kWh and be offset by Fixed CTC True-up Revenue, resulting in a zero PPFAC rate on customer bills for the April 1, 2009 through March 31, 2010, PPFAC year.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

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MICHAEL P. KEARNS  
INTERIM EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:BEK:lhmvJFW

Decision No. \_\_\_\_\_

SERVICE LIST FOR: TUCSON ELECTRIC POWER COMPANY  
DOCKET NOS. E-01933A-07-0402 and E-01933A-05-0650

Mr. Michael W. Patten  
Roshka, DeWulf & Patten  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Mr. Raymond S. Heyman  
UniSource Energy Corporation  
One South Church Avenue, Suite 1820  
Tucson, Arizona 85701

Ms. Michelle Livengood  
Tucson Electric Power Company  
One South Church Avenue, Suite 200  
Tucson, Arizona 85701

Mr. Daniel Pozefsky  
RUCO  
1110 West Washington Street, Suite 200  
Phoenix, Arizona 85007

Mr. Michael Grant  
Gallagher & Kennedy, PA  
2575 East Camelback Road  
Phoenix, Arizona 85016-9225

Mr. Gary Yaquinto  
AUIA  
2100 North Central Avenue, Suite 210  
Phoenix, Arizona 85004

Mr. Peter Q. Nyce, Jr.  
General Attorney, Regulatory Law Office  
Office of the Judge Advocate General  
Department of the Army  
901 North Stuart Street, Room 713  
Arlington, Virginia 22203-1644

Mr. Dan Neidlinger  
Neidlinger & Assoc.  
3020 North 17<sup>th</sup> Drive  
Phoenix, Arizona 85015

Mr. Daniel D. Haws  
OSJA, ATTN: ATZS-JAD  
USA Intelligence Center and  
Ft. Huachuca  
Ft. Huachuca, Arizona 85613-6000

Mr. C. Webb Crockett  
Fennemore Craig, PC  
3003 North Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913

Mr. Nicholas J. Enoch  
Lubin & Enoch, PC  
349 North Fourth Avenue  
Phoenix, Arizona 85003

Mr. Timothy M. Hogan  
Arizona Center for Law in  
the Public Interest  
202 East McDowell Road, Suite 153  
Phoenix, Arizona 85004

Mr. David Berry  
Western Resource Advocates  
Post Office Box 1064  
Scottsdale, Arizona 85252-1064

Mr. Eric Guidry  
Energy Program Staff Attorney  
Western Resource Advocates  
2260 Baseline Road, Suite 200  
Boulder, Colorado 80302

Mr. Jeff Schlegel  
SWEEP  
1167 West Samalayuca Dr.  
Tucson, Arizona 85704-3224

Mr. Thomas L. Mumaw  
Arizona Public Service Company  
Post Office Box 53999/MS 8695  
Phoenix, Arizona 85072-3999

1 Ms. Barbara A. Klemstine  
Mr. Brian Brumfield  
2 Arizona Public Service Company  
Post Office Box 53999/MS 9708  
3 Phoenix, Arizona 85072-3999  
4  
Mr. Michael L. Kurtz  
5 Mr. Kurt J. Boehm  
Boehm, Kurtz & Lowry  
6 36 East Seventh Street, Suite 1510  
7 Cincinnati, Ohio 45202  
8  
Mr. William P. Sullivan  
Curtis, Goodwin, Sullivan,  
9 Udall & Schwab, PLC  
501 East Thomas Road  
10 Phoenix, Arizona 85012  
11  
Ms. Deborah R. Scott  
12 Mr. Robert J. Metli  
Snell & Wilmer, LLP  
13 One Arizona Center  
400 East Van Buren  
14 Phoenix, Arizona 85004-2202  
15  
Mr. Lawrence Robertson  
16 Post Office Box 1448  
Tubac, Arizona 85646  
17  
MR. Greg Patterson  
18 916 West Adams, Suite 3  
Phoenix, Arizona 85007  
19  
Mr. S. David Childers  
20 Low & Childers, PC  
21 2999 North 44<sup>th</sup> Street, Suite 250  
Phoenix, Arizona 85018  
22  
Law Offices of Christopher Hitchcock  
23 Post Office Box AT  
24 Bisbee, Arizona 85603-0115  
25  
Mr. Billy L. Burnett  
26 3351 North Riverbend Circle East  
Tucson, Arizona 85750-2509  
27  
28

Mr. John E. O'Hare  
3865 North Tucson Boulevard  
Tucson, Arizona 85716-1041

Ms. Cynthia Zwick  
1940 East Luke Avenue  
Phoenix, Arizona 85016

Mr. Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Janice M. Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007